

## Exhibit B-1 Special Payment Provisions

The use of headings of titles throughout this exhibit is for convenience only and shall not be used to interpret or govern the meaning of any specific term, function, or activity.

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**In the event of a conflict between the provisions of Exhibit B and Attachment I to Exhibit B, the provisions of Attachment I to Exhibit B shall govern.**

## **A. Special Payment Provisions**

### **1. Introduction**

This Chapter defines the basis for payment for contractual services required by this contract. Compensation will be made for the eight (8) Contractor areas described in the contract. The eight (8) areas are:

- a. Takeover;
- b. Operations;
- c. Additional Contractual Services;
- d. Change Orders;
- e. Turnover;
- f. Runout;
- g. Cost Reimbursement; and
- h. Hourly Reimbursement.

All of these payment categories shall be paid according to the schedule and under the conditions described in this Chapter. Included under the conditions described in this Chapter are certain conditions precedent to Contractor payment that require receipt of specific goods or services before release of payment. The Department does not believe that any of these conditions precedent constitute a performance withhold pursuant to Public Contract Code, Section 22300. However, should it be determined that any payment provision is in fact a performance withhold, the Department shall permit the Contractor to exercise the substitution option provided for in Public Contract Code, Section 22300.

### **2. Takeover**

Takeover constitutes all contractual responsibilities required for the Contractor to assume responsibility for the operation of the California Dental Medicaid Management Information System (CD-MMIS), as defined in Exhibit A, Attachment I, Takeover Requirements. Also included in Takeover payment is payment for any work that may occur during Takeover that is required under Exhibit A, Attachment III, Change Requirements; Exhibit C, General Terms and Conditions; Exhibit D (F), Special Terms and Conditions; and Exhibit E, Additional Provisions. Payment for Takeover will be on a fixed price basis with the exception of those specific work items paid under fixed price per Treatment Authorization Request (TAR), Cost Reimbursement, the Hourly Reimbursed Special Groups, and the Hourly Reimbursement.

The TAR documents processed during Takeover will be paid at the bid rate for the low volume range for phase one (1) of Operations and will be counted in the Phase one (1) TAR volume. Operation payments phases are defined below.

Takeover shall be paid as follows:

a. Takeover Percentage Payment

Fifty percent (50%) of the Contractor's fixed price for Takeover will be paid in nine (9) equal installments, the first of which shall be made upon the Contracting Officer's acceptance and approval of the Takeover Work Plan. Included in the Takeover Work Plan will be a comprehensive Takeover schedule showing deliverables, milestones, and required Department approvals. This schedule shall serve as the basis for payment of subsequent installments. Each installment is payable, in arrears, upon completion of the deliverable(s), and upon attainment of the milestones and Department approvals scheduled for that month and all preceding months.

The Department will require ten (10) State workdays from date of delivery, to review the scheduled deliverables, and either approve the deliverable(s), reject them, or pend them for modifications by the Contractor. For each day past the scheduled due date that the deliverable(s) is not received, the Department will require two (2) additional State workdays for review. In no case will Takeover payments be made more than one (1) year after the effective date of the contract. In the event Takeover deliverables or corrections to them are received more than one (1) year from the contract effective date, they shall not be subject to Contractor payment. Instead the Department's obligation to pay the associated invoice shall be excused.

b. Takeover Completion Criteria and Percent Payment

The remaining fifty percent (50%) of the Contractor's Takeover price becomes due and payable after all the conditions specified in Exhibit A, Attachment I, Takeover, are met. A single invoice for Takeover completion will be required.

c. Takeover Invoicing

The Contractor shall submit nine (9) monthly installment invoices for payment by the Department only after the Department has approved, in writing, required deliverables and the attainment of defined milestones. Invoices shall include a report showing the attainment of all monthly requirements defined in the Takeover Work Plan. Invoices for Takeover completion will be processed upon the Contracting Officer's acceptance that the Takeover Completion Criteria described in Exhibit A, Attachment I, Takeover, have been met. The Takeover price shall be adjusted for any disallowed costs in accordance with Takeover, Exhibit A, Attachment I, 1.4.8 prior to the submission of any Takeover invoices. The revised Takeover price will then be adjusted in accordance with the invoicing requirements of this section.

### 3. Operations

Operations constitute all contractual responsibilities required for the Contractor to administer and operate the CD-MMIS. Included in Operations Payment is payment for any work that may occur during Operations due to work required for Additional Contractual Services, Exhibit E, Additional Provisions, and Exhibit A, Attachment III, Change Requirements (except for the Systems Group). Payment for Operations will be on a fixed price basis for all Operations functions, except for those paid under the Hourly Reimbursed Special Groups, and Cost Reimbursement. Claims are paid on a line-item basis using a count of ACSLs (paid on a per claim line basis) and TARs (paid on a per document basis).

ACSL/TAR rates shall include costs associated with Operations, as listed in Exhibit A, Attachment II, Operations, and Exhibit A, Attachment III, Change Requirements, including general and administrative costs, all other overhead costs and fees.

a. Operations Payment Phases

Operations Payment shall be divided into distinct phases for ACSLs and TARs based on the date of payment for ACSLs and approval for TARs. For ACSLs, Phase one (1) commences upon the assumption by the Contractor of ACSL processing and will continue for fifteen (15) months.

For TARs, Phase one (1) commences seven (7) months and fifteen (15) days after contract effective date, and continues until twenty-four (24) months after contract effective date, ending the same day as Phase one (1) for ACSLs.

Thereafter, for ACSLs and TARs, Phases two (2), three (3), and four (4) will consist of the next three (3) twelve (12)-month periods, respectively.

The last three (3) phases are the three (3) optional one (1)-year extensions that will consist of twelve (12) months each and shall be called Extension Phase one (1), Extension Phase two (2), and Extension Phase three (3). Additionally, the Department may exercise a one (1) time Extended Operations of the contract for a period no shorter than six (6) months, up to one (1) year (12 months).

b. Operations - Base Volume Method of Payment (BVMP) Phases

The following describes all Operations payment categories using the Base Volume Method of Payment (BVMP) for ACSL and TAR processing by the Contractor. Attachment 13-2 and 13-3 of the RFP or Exhibit I (Contractor's incorporated Cost Proposal) provides the volumes for each payment period and the three (3) extension years for BVMP. The BVMP will either be reconciled monthly or reconciled once annually as described below.

These exhibits provide all of the following:

- 1) A base volume range for each payment phase;
- 2) A maximum BVMP volume range for each payment phase; and
- 3) A minimum BVMP volume range for each payment phase.

For each Operations Phase in each BVMP category:

- 1) The fixed price bid amount for processing all qualifying BVMP within the base volume range for each payment phase shall be used to calculate Contractor payment. If the BVMP volumes fall within that volume range, the Contractor will be paid that amount.
- 2) In its bid, the Contractor subdivided the BVMP volume falling between the maximum of the base volume range and the maximum volume bid (maximum volume range) for the Contract into plus (+) BVMP volume levels. The Contractor selected up to five (5) BVMP volume levels. A fixed rate was bid for processing each BVMP within each Level. The total evaluated price for each plus (+) Level was calculated by multiplying the BVMP bid price times the total BVMP volume in that Level.

If actual BVMPs fall above the base volume range, the Contractor will be paid the price per BVMP, for the respective volume level for processing those BVMPs.

For example, if the actual BVMP volume falls in the second volume level bid by the Contractor (Level +2), the Contractor will be paid as follows:

- a) Multiply the number of BVMP in Level +1 volume (Level +1 is the Level nearest the base volume range) times the BVMP price for that Level;
  - b) Subtract the minimum Level of Level +2 volume from the actual BVMP volume Level and multiply the difference times the bid price for the Level +2 Level; and
  - c) Add the results of the (a) and (b), above, to the fixed price for the base volume range.
- 3) In its bid, the Contractor subdivided the BVMP volume falling between the minimum of the base volume range and the minimum of the minimum volume range into negative (-) BVMP volume Levels. The Contractor selected up to five (5) BVMP levels. A fixed negative rate was bid for all BVMP within each Level. The total evaluated price for each minus (-) Level was calculated by multiplying the negative BVMP bid price times the total BVMP volume in that Level. The total evaluated price for these Levels was a negative amount.

If the BVMP volume does not reach the minimum of the base volume range, the price bid for the base volume range will be reduced by the number of BVMP below the base volume range times the BVMP minus rates within each Level.

For example, if the actual BVMP volume falls in the second (2) negative volume Level (Level - 2) the BVMP base volume price will be reduced in the following manner:

- a) Multiply the number of BVMP in Level – 1 volume (Level – 1 is the Level nearest the base volume range) times the BVMP price for that Level;

- b) Subtract the actual BVMP volume Level from the maximum of Level – 2 volume and multiply the difference times the bid price for the Level – 2 Level; and
- c) Subtract the result of the (a) and (b), above, from the BVMP base volume price.

c. Monthly Base Volume Method of Payment (BVMP) Reconciliation Calculation

The base volume range is expressed in contract Phase amounts for BVMPs. Payment for BVMP will be made monthly and will be calculated by the Contractor by dividing the base volume price for BVMPs processed for a given Phase by twelve (12) (except for Phase 1 of TAR processing, which will be sixteen (12) months fifteen (15) days.) If the actual BVMPs for the contract Phase based on the Monthly BVMP Billing Report falls within the base volume range, no further adjustment will be necessary. This shall constitute full payment for BVMPs.

1) Monthly Reconciliation of BVMP Payments

This shall apply only to monthly reconciliation of BVMPs. In order to avoid major end-of-Phase adjustments for BVMP payments, reconciliation of BVMPs shall be made by the Contractor on a monthly basis based on a cumulative of the minimum and maximum of the base volume range. To determine each month's minimum and maximum, the Phase minimum and maximum shall be divided by the number of months in the Phase. To determine the monthly cumulative minimum and maximum, the month minimum and maximum will be multiplied by the number of months elapsed for the payment Phase. For example, the fifth (5<sup>th</sup>) month of payment cumulative minimum and maximum shall be calculated by dividing the annual minimum and maximum by twelve (12) (except for Phase 1 of TAR processing, as described above) and multiplying by five (5). The cumulative minimum and maximum shall form the basis for the monthly adjustment.

Monthly payment for base volume will be the bid price for the particular payment Phase prorated by the number of months in the payment Phase. The Contractor will be paid that monthly amount adjusted as required by actual volume Levels. For example, the Contractor will be paid, monthly, one-twelfth (1/12<sup>th</sup>) (except for Phase 1 of TAR processing) of the bid price for the base volume range with volume Level BVMP payments or reductions applied.

Adjustments will be computed on a tiered approach as defined below. Volume Level BVMPs payments or reduction will not be prorated in the monthly reconciliation. The first Level Phase volume will be exhausted before the next Level is used in adjusting payment. For example, Level +1 Phase BVMPs will be entirely billed on a monthly basis before any BVMPs bid at Level +2 are billed. The entire Level +2 Phase BVMP volumes will then be billed on a monthly basis and so forth. This example also applies to the minus volumes.

Although payment is constantly reconciled, the final payment for the Phase shall be used to determine that the total payment is correct with the applicable Levels and if either the contractual maximum Level has been exceeded or the minimum point of re-negotiation has not been met.

## 2) First Month Adjustment

Adjustment to the monthly payment can begin in the first (1<sup>st</sup>) month if the volume of BVMPs justifies the adjustment. If the volume of BVMPs exceed the first (1<sup>st</sup>) month's base volume maximum, or do not meet the first (1<sup>st</sup>) month's base volume minimum, an adjustment shall be made based on the variance between the actual BVMP and the monthly minimum/maximum BVMPs. The variance shall be multiplied by the applicable rate and adjustment shall be made to the monthly base volume payment.

## 3) Subsequent Month of Payment

For each month of payment, the Contractor shall compare the actual number of BVMPs to the monthly maximum/minimum. Any of the following conditions will result in an adjustment to the payment:

- a) The total BVMPs exceed the monthly maximum number of BVMPs;
- b) The total BVMPs do not meet the minimum; and
- c) The total BVMPs are within the minimum/maximum of the monthly number but prior months of base volume range payment were adjusted.

As specified above, a tiered approach will be utilized in calculating the adjustment.

Adjustment to each payment can occur if BVMPs warrant the adjustment. If the transaction volume exceeds that month's maximum or does not meet the minimum of the base volume range, adjustments to payment shall be made based on the variance between actual BVMPs and the monthly minimum/maximum of BVMPs. This variance will be multiplied by applicable rate. This adjustment must take into account all prior adjustments to ensure an accurate monthly payment based upon the actual BVMPs. For all subsequent months after the first (1<sup>st</sup>) month of payment for the payment Phase, the amount of payment will be determined by the volume of BVMPs and by any adjustment previously made to payment. For example, if the previous month was adjusted for exceeding the maximum or not meeting the minimum, but the current month is within the base volume range, the monthly base volume payment will be adjusted to offset the previous adjustments

## 4) Final Payment for Annual Phase

Although payment is continuously adjusted, the final adjustment will be used to insure the Levels are properly applied and to determine if the transaction processing BVMP rates need to be renegotiated through the process specified in subsection b.2, below. The final payment for the Phase will not be paid until after the annual reconciliation has been reviewed and approved by the Department. The Contractor must adjust its final invoice for the Phase. The final payment for the Phase shall reflect the base volume payment only (if the actual BVMP

volume fall within the base volume) unless the reconciliation indicates overpayments or underpayments.

d. Annual Base Volume Method of Payment (BVMP) Reconciliation Calculation

Although the reconciliation is performed monthly for some BVMPs, at the end of each contract Phase the actual transaction volume for the entire period for all the BVMP will be determined by the Contractor and the associated bid rates will be applied. If the cumulative amount paid to the Contractor on a monthly basis varies from the amount owed to the Contractor on an annual basis, an adjustment will be made to reflect the annual amount.

This shall also apply to those BVMP categories that are reconciled only once annually. If the cumulative base volume amount paid to the Contractor varies from the amount owed to the Contractor for the Phase, an adjustment will be made to reflect the annual amount.

e. Re-negotiation of BVMP

If the actual yearly volume of BVMPs, for any reason, including legislation or court action, exceeds the yearly high volume maximum listed in the forms in Attachment 12 of the RFP or Exhibit I (Contractor's incorporated Cost Proposal) for that Phase, payment for those BVMPs above this Level for that payment Phase shall be negotiated through the Change Order process. While the new transaction price is being negotiated, an interim rate equivalent to the rate for the highest Level of the maximum volume range will be paid for BVMPs exceeding the maximum of the maximum volume rate. Following negotiations, the amount paid on an interim basis will be adjusted retroactively to reflect the new rate.

Additionally, the contract sets a minimum BVMP volume amount (minimum of the minimum BVMP volume range), which will also serve as a point of re-negotiation. If for any reason, including legislation or court action at the end of a payment Phase, it is determined that the actual BVMP volume did not reach this minimum Level, further reduction to the base volume contract price beyond that bid in the minus (-) BVMP volume Level shall be negotiated through a Change Order. While the new BVMP price is being negotiated, an interim rate equivalent to the rate for the lowest Level of the minimum volume range will be paid for BVMPs falling below the minimum of the minimum volume rate. Following negotiations, the amount paid on an interim basis will be adjusted retroactively to reflect the new rate.

f. Payment Report

1) BVMP Monthly Reconciliation Payment Reports

The Contractor shall develop payment reports for each BVMP classification (see, e.g., Operations Payment Phases above) to track all payment and Levels bid. Because all adjustments to payments are computed by using a tiered approach in Level order, the Contractor shall not only track the volume of BVMPs, but all adjustments in all Levels utilized. The monthly adjustments shall be computed by exhausting the total number of annual BVMPs in each Level in their order

starting at the maximum/minimum of the base volume range. Although the monthly payment is computed by dividing the payment Phase for the base volume range by the number of months in the payment Phase, the adjustments shall be counted by exhausting the annual number of BVMPs in each Level in their order. Once the first Level is exhausted, the next Level will be used until all Levels are exhausted in the payment Phase. It is possible that there may be fluctuations in the monthly BVMPs. If this should occur, the Contractor may have an increase in one month but a negative adjustment in the following month, or vice versa.

## 2) BVMP Annual Reconciliation Payment Report

The Contractor shall develop payment reports for each BVMP classification (see, e.g., Operations Payment Phases above) that require annual reconciliation to track all payment and Levels bid. Each monthly payment is one-twelfth (1/12<sup>th</sup>) of the annual base volume payment and the monthly report shall track the cumulative transactions. The final report shall track the volume of BVMP and all Levels utilized. The adjustment shall be computed by subtracting the base volume maximum/minimum from the annual actual and multiplying BVMP in each Level in their order starting at the maximum/minimum of the base volume range. Once the first Level is exhausted, the next Level will be used until all Levels are exhausted in the payment Phase.

The BVMP payment reports (monthly or annual reconciliation) shall be submitted with each monthly invoice.

## g. Operations – General Categories

Operations shall be separated into two categories: ACSLs and TARs. Each category shall use BVMP as described above in “Operations, Base Volume Method of Payment (BVMP) Phases.”

## h. General Adjudicated Claim Service Lines (ACSLs)

The ACSL will consist of all claim service lines adjudicated for all claim types (approved for payment or denied) except: all adjustments; resubmissions and retroactive rate adjustments; Claim Inquiry Forms (CIFs); lines created due to data entry errors; lines created due to substitute for billed lines using the replace and substitute process; or claim denials resulting from the failure of a provider to return a Resubmission Turnaround Document (RTD). The ACSL will also include the County Medical Service Program (CMSP), Child Health and Disability Prevention (CHDP), program, Children’s Treatment Program (CTP), California Children's Services (CCS), and Genetically Handicapped Persons Program (GHPP) claims and all new dental program types added to the CD-MMIS by system change throughout the contract.

- 1) ACSL - An ACSL will be considered payable to the Contractor for a given month if it has been included in a checkwrite issued that month. Lines adjudicated for payment but not in a checkwrite are not billable until they are issued to the provider in a checkwrite

- 2) CLAIM SERVICE LINE – A logical detail service line on a claim form or record that contains a service code, a service description, date of service, and a service fee, and may be billed by the provider on either a claim form or a NOA. Documents that are classified by the CD-MMIS as TARs are not claims for ACSL calculation. NOAs returned by the provider as a claim are counted as ACSLs when adjudicated.
  - 3) APPROVED FOR PAYMENT - A claim service line that has reached final adjudication status and has been determined to meet all requirements for payment and is included in the checkwrite.
  - 4) DENIED - A claim service line that has reached a final adjudication status and is not payable to the provider because it is not a covered benefit, is not for an eligible beneficiary, is not from an enrolled Medi-Cal dental provider, has not been prior authorized when necessary, is not medically necessary (based on diagnosis and other information supplied with the claim), is a duplicate of a previously approved payment, or is otherwise not authorized for payment.
  - 5) ADJUSTMENT - A transaction that changes information on a previously adjudicated claim (e.g., payment amount, units of service or other change to history). May be a debit, credit or void adjustment or reversal of a previously paid claim.
  - 6) RETROACTIVE RATE ADJUSTMENTS - A re-adjudication of paid claims using a new rate, which may be necessitated by policy, budgetary, statutory changes, lawsuits or other reasons. For the period covered by the rate change, the re-adjudication may result in either an increase, decrease or no change in the amount previously paid.
  - 7) CLAIMS INQUIRY FORM (CIF) – A special form submitted by the provider to the Contractor to inquire about the status of a claim in the system. These may result in adjustments that are not ACSLs.
  - 8) LINES CREATED BY DATA ENTRY ERRORS – These are lines created by the Contractor due to improper manual or machine reading of claim information. These are not ACSLs.
  - 9) REPLACE AND SUBSTITUTE – A processing procedure that allows the Contractor to substitute another claim service line(s) for otherwise denied claim service lines. Only the claim service line submitted by the provider will be counted for payment. The substitute lines created by the Contractor are not payable as ACSLs.
  - 10) CLAIM DENIED FROM FAILURE OF THE PROVIDER TO RETURN AN RTD – A claim service line that requires correction by the provider through a RTD, the provider has failed to return the RTD and the claim service line is denied for that failure.
- i. Treatment Authorization Requests (TARs)

For payment purposes, the Contractor shall consider only those processed TAR documents that have been approved, modified, or denied, and for which the provider has been sent a Notice of Authorization (NOA) during the month.

- 1) Treatment Authorization Request (TAR) - A TAR is a request for authorization of dental service by a provider. A TAR document consists of all information submitted on an approved Medi-Cal request for prior authorization form (Forms DC-001A, DC001B, DC002B, and DC-009B). Currently, the CD-MMIS classifies a document as a TAR where there is line item service described but there is no date of service for one or more of line items shown. Documents classified as TARs shall not be payable as claims.
- 2) AUTHORIZED FOR SERVICE - A TAR that has reached a final adjudication status and has been determined to meet all requirements for authorization
- 3) MODIFIED - A TAR that has been approved with modified services.
- 4) DENIED – A TAR that has reached a final adjudication status and is not approved.
- 5) RETURNED NOAs - NOAs returned for reconsideration will not be considered to be a TAR for payment.
- 6) INTERNALLY REPROCESSED TAR - A TAR that is reprocessed by the Contractor to allow processing of a subsequent TAR due to a conflict in history will not be considered to be a TAR or ACSL for payment.
- 7) Claim Inquiry Form - CIFs submitted by the provider requesting reconsideration or an extension of a TAR or a tracer are not billable as a TAR.
- 8) Resubmission Turnaround Document (RTD) DENIALS - Claims, TARS, NOA, and CIFs denied for failure of the provider to return the RTD within the required time frames will not be considered to be a TAR or ACSL for payment.
- 9) ELECTIVE PRIOR AUTHORIZATION – A TAR for approval whereby, the service(s) do not require a TAR are not considered TARS for payment purposes.

j. Operations Prices

RFP Attachments 13-2 and 13-3 provide ACSL and TAR volumes for each payment period and the three extensions for each category. These attachments provide for:

- 1) A base volume range for each payment phase;
- 2) A maximum ACSL volume range for each payment phase; and
- 3) A minimum ACSL volume range for each payment phase.

Payment and reconciliation will be completed as described for BVMP, section 1) b., Operations. Both ACSLs and TARs shall be reconciled monthly as described in this section.

## k. Payment Categories

Operations billings shall include correct certified General CD-MMIS ACSL and TAR billing reports. The payment amount will be totaled to determine the monthly operations invoice. The monthly operations invoice will be divided into the following payment categories sent to the Department for payment.

1) General CD-MMIS Operations	10%
2) Cycle Time	35%
3) CD-MMIS Reports and Documentation	20%
4) Quality Management/Problem Corrections System	20%
5) Provider Relations	<u>15%</u>
	<u>100%</u>

## l. Conditions Precedent to Payment

The Contractor's Operations payments will be made for each of the five (5) separate categories stated above. Compensation will be made in arrears in one (1) lump sum for each category, provided that all contractual responsibilities have been met.

When invoicing the Department, the Contractor shall show the applicable requirement or billed deliverable, performance achieved, and payment requested for the amount due. If performance was not achieved, it shall be so indicated, and a plan to achieve performance shall be included. In the event the Contractor fails to meet requirements or provide deliverables, as specified below, for one (1) or more of categories one (1) through five (5), payment will not be made by the Department for that category until such time as all overdue deliverables are received, or performance again meets requirements. (Items one (1)-five (5) defines payment penalties for each payment category resulting from Contractor's failure to comply with contract requirements.) Denial of payment will occur, unless, at the Contracting Officer's discretion, he/she determines that the Contractor is in substantial compliance with specific contractual requirements.

The specific criteria for each area of Operations are identified below:

## 1) GENERAL CD-MMIS OPERATIONS - 10%

The deliverables for general CD-MMIS operations are as follows:

- a) ACSL Report (CP-0-52) (described in Exhibit A, Attachment II); and
- b) Timely Financial Reports (described in Exhibit E).

The Contracting Officer will not make payment for this category until all applicable deliverables are approved/accepted. Failure to meet the requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and if deliverables have been submitted (although not timely) for any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment

will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) consecutive months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Lost payment does not excuse the Contractor from submittal of the required deliverables.

2) CYCLE TIME - 35%

Payment will be made for this category when the Contractor meets all cycle time requirements as listed in Exhibit A, Attachment II. Failure to meet the cycle time requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's cycle time requirement will entitle the Contractor to payment for that month, and any previous month for which payment was not received. If contractually required performance is not met for six (6) months, the Department's obligation to pay for this category is excused.

Payment will be made for this category when all applicable deliverables are approved/accepted by the Contracting Officer. Failure to meet the requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and if deliverables have been submitted (although not timely) for any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) consecutive months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Lost of payment does not excuse the Contractor from submittal of the required deliverable.

3) CD-MMIS Reports and Documentation – 20%

Timely and accurate delivery of the following CD-MMIS reports:

- a) All General Systems Designs (GSD) required or functional equivalent reports (see the various CD-MMIS users' manuals for report descriptions);
- b) Cycle Time Reports;
- c) All Checkwrite Reports;
- d) Claim Edit/Audit and Data Control Center (DCC) Reports;
- e) Paid Claims Tape;

- f) Error Parameter Table Listing; and
- g) All other required CD-MMIS reports as listed in the CD-MMIS Report Distribution list and the CD-MMIS Design Specifications. The Contracting Officer may make exception to these reports.

Payment will be made for this category when all applicable deliverables are approved/accepted by the Contracting Officer. Failure to meet the requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and if deliverables have been submitted (although not timely) for any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) consecutive months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Loss of payment does not excuse the Contractor from submittal of the required deliverable.

4) QUALITY MANAGEMENT REPORT PRODUCTION/PROBLEM CORRECTION SYSTEM - 20%

Deliverables consist of those defined in the Quality Management requirements, plus timely performance of problem correction.

Payment will be made for this category when all applicable deliverables are approved/accepted by the Contracting Officer. Failure to meet the requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and if deliverables have been submitted (although not timely) for any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) consecutive months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Loss of payment does not excuse the Contractor from submittal of the required deliverable.

5) PROVIDER RELATIONS – 15%

Payment will be made for this category when all applicable deliverables and performance standards have been met as defined in Exhibit A, Attachment II, Operations, Provider Relations Subsystem subsection, of this contract. Failure

to meet the requirements for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Loss of payment does not excuse the Contractor from submittal of the required deliverable.

m. Operations Invoicing

The Contractor shall invoice the Department separately for the five (5) Operations areas and submit reports as defined throughout Exhibit A with each invoice. All invoices shall be submitted after completion of the required work. Invoices for the following Operations areas shall be submitted to the Department as indicated below:

- 1) CD-MMIS Reports and Documentation; Invoices shall be submitted on, or before the fifth (5<sup>th</sup>) State workday of the month.
- 2) Cycle time: Invoices shall be submitted on, or before the seventeenth (17<sup>th</sup>) State workday of the month.

This invoicing method will allow the Contractor and the Department time to verify that monthly reports have been received and cycle time requirements have been met, prior to authorizing payment. All invoices for other areas of the contract shall be submitted to the Department no earlier than the first (1<sup>st</sup>) State workday of the month.

The Contracting Officer shall have sole discretion in approving payments for any categories that are deemed in substantial compliance with Conditions Precedent to Payment.

n. ACSL Billing Report

- 1) The Contractor shall produce a billing report to submit with the monthly General CD-MMIS Operations Invoice. The basis of this report shall be the CP-0-495 report currently being used, which shall be revised during Takeover to meet the requirements of this contract. An ACSL will be considered payable for a given month if it has been processed through a weekly cycle during that month and is ready for inclusion in the payment tape. Denials that have been made during the month after the last weekly audit cycle will be counted as ACSLs for the next month. The report will calculate the monthly total amount billed for Operations. The report shall be computer produced and shall include statistics for ACSL volume levels for each week, the month as a whole, and for the payment phase.

During Takeover, the Contractor shall revise the existing billing report to meet contract requirements. Documentation for these revisions shall be subject to review and approval by the Contracting Officer. The report shall be ready for Department acceptance testing when such testing commences.

This report shall be cumulative for the contract payment phase. The report shall show statistics by program claim type and total claims. It shall report data under the following categories:

- a) ACSLs and claims for services paid by the Pure Premium Rates reported by Refugees and All Others;
- b) ACSLs and claims for cost reimbursable services, by reimbursable categories with subtotals. This report shall separately identify ACSLs processed for all other cost reimbursable services;
- c) Billable ACSLs identifiable by those billed on claims forms and NOAs categorized by hardcopy and Medi-Cal computer media lines;
- d) Retroactive rate adjustment lines;
- e) Other adjustment lines;
- f) Lines created by the Contractor using replace and substitute;
- g) Data Entry error lines; and
- h) Claim denials due to provider's failure to return Resubmission Turnaround Documents (RTDs).

This report shall summarize ACSLs and non-billable lines by payment categories and by claim document, providing subtotals and totals. The total claim lines on this report shall balance with other CD-MMIS reports without the need to manually add additional data and with the tape used to produce the checkwrite. The Contractor's design documentation, submitted during Takeover, shall document how the report is produced and how it balances to other reports.

- 2) Additional reporting may be required, therefore, the Contractor shall, within 10 State workdays of a request by the Department, make available a computer tape listing of ACSLs billed. The tape shall include all data elements on an EOB payment line for checkwrite. This tape shall be used by the Department for audit purposes. As the Department will use the paid claims tape for audit purposes, and it will be necessary that both tapes and report reconcile.

o. TAR Billing Report

- 1) The Contractor shall produce a billing report for TARs to submit with the monthly Operations invoice and with the invoice for TARs processed during Takeover. The basis of this report shall be the CP-0-496 report currently being used which shall be revised to meet the requirements of this contract. A TAR will be considered payable for a given month if the NOA is ready to be mailed to the

provider. The report will calculate the monthly total amount billed for Operations TARs. The report shall be computer generated and shall include statistics for TAR volume levels for each week, the month and for the payment phase, and include a summary page similar to that required for ACSLs. During Takeover, the Contractor shall develop the report to meet contractual requirements. Documentation for these reports shall be subject to the review and approval of the Contracting Officer. The report shall be ready for Department acceptance testing when such testing commences. (See Exhibit A, Attachment I, Takeover)

This report shall be cumulative for each month of the contract payment phase. The report shall show statistics by total TARs. It shall report data under the following categories:

- a) TARs for services to be paid by the Pure Premium Rate reported by Refugees and All Others;
  - b) TARs for cost reimbursable services, by reimbursable categories with subtotals. This report shall separately identify TARs processed by all other cost reimbursable categories. Determinations that require the use of an aid code, shall utilize the current aid code for the beneficiary, if available. If aid code information is not available the TAR shall not be reported in a special category;
  - c) Billable TARs;
  - d) Non-billable NOAs processed for reconsideration;
  - e) Non-billable NOAs processed for extension of time;
  - f) Any other adjustments which are non-billable; and
  - g) TAR denials due to the provider's failure to return RTDs.
- 2) This report shall summarize TARs and non-billable documents by payment categories and by document providing subtotals and totals. The total count on this report shall balance with other CD-MMIS reports without the need to manually add additional data. Additionally, the Contractor shall prepare for the Department a computer tape supporting all TAR billings for the month. The Contractor's design documentation, submitted in compliance with Takeover Requirements in Exhibit A, Attachment I, Takeover, shall document how the report is produced and how it balances to other reports.
- p. Consolidated CD-MMIS Billing Report

The Contractor shall produce a consolidated billing report for ACSLs and TARs to submit with the monthly Operations invoice. The basis of this report shall be a summary of the CP-0-495 report for ACSLs and the CP-0-496 report for TARs. During Takeover, these reports will be revised to meet the RFP requirements.

This report shall be cumulative for the contract payment phase. The report shall show statistics by total ACSLs and TARs. This report shall be computer generated.

The Contractor shall develop the report to meet contractual requirements. Documentation for these reports shall be reviewed, and approved by the Department if they are acceptable. The report shall be ready for Department Acceptance Testing when such testing commences. (See Exhibit A, Attachment I, Takeover)

q. Other Supporting Documentation

Invoices for items one (1) through five (5) described in "Conditions Precedent to Payment," shall include a certification signed by the Contractor's Chief Financial Officer, or equivalent position, stating that all requisite deliverables and/or performance requirements have been met. In the event that requisite deliverables and/or performance requirements have not been met, then the Contractor shall provide an explanation and a plan to achieve performance.

The Contractor's certification shall be submitted to the Department with each respective Operations invoice along with documentation that demonstrates that requirements have been met for payment. Said documentation shall be billing reports. Approval of the respective Operations invoices by the Contracting Officer shall be contingent upon the receipt of the aforementioned certifications, and of the reports listed below:

- 1) General CD-MMIS Operations Reports;
- 2) Cycle Time Billing Reports;
- 3) Billing Reports;
- 4) Quality Management and Problem Corrections System Billing Report; and
- 5) Provider Relations Billing Report.

r. Extended Operations

Volumes and rates for the contract Phase immediately preceding any Period of Extended Operations pursuant to "Term of the Contract" will be the basis of payment for any such Period of Extended Operations. If the option to extend the contract (for a Period of Extended Operations) is exercised for a period of less than a full year, the base volume ranges and all volume Levels specified in the Contractor BVMP price bids will be adjusted in proportion to the number of months of the extension.

The adjustment will be accomplished by dividing the base volume ranges and volume Levels (for the preceding Phase) specified in Contractor BVMP price bids on BVMP Exhibits by twelve (12) (respectively), and then by multiplying the result by the number of months extended. This calculation will result in adjusted base volume ranges and volume levels.

For each month of any Period of Extended Operations, the Contractor will be paid one twelfth (1/12th) of the price for the base volume for the preceding twelve 12-month Phase. Reconciliation will be undertaken at the end of the Period of Extended Operations proportionately to the number of months of the Period of Extended Operations.

Hourly Reimbursement and Special Groups during any Period of Extended Operations shall be continued at the same rate as in the immediately preceding twelve (12)-month Phase.

#### 4. Fixed Price Additional Contractual Services

Additional Contractual Services (ACS) are proposed methods of providing contract services beyond those required in the RFP which will improve contract administration, including methods to improve the fiscal intermediary's performance through system improvements. ACSs offer services, functions, and procedures above contract requirements or current CD-MMIS functions. ACSs may be offered for any areas of Operation.

The approved ACSs are those that have been proposed in the technical proposal and accepted by the Department. The Contractor shall bid a separate price for the DD&I of each approved ACS and for the Operations of each approved ACS.

a. Fixed Price ACS Design, Development, And Implementation Payment

Percentage payments for the ACS DD&I will be made contingent upon the Department's receipt, acceptance, and approval of required deliverables at the completion of each ACS DD&I phase. Payment percentages will be as follows:

Phase I: Specific Functional Design, Work Plan, and Test Plan	20%
Phase II: Technical System Design, Programming, Testing, and Education/Training	60%
Phase III: Implementation and Post-Implementation Review	<u>20%</u>
	100%

b. ACS DD&I Invoice

Upon the receipt, acceptance, and approval of the Contracting Officer of the required scheduled deliverables for each ACS DD&I phase identified above, the Contractor shall submit a separate invoice to the Department for each of the three ACS DD&I phases identified above.

c. Fixed Price ACS Operations Payment

The Contractor shall bid ACS Operations Fixed Price Bid for each of the four contract years and each of the three extension years. If the Department determines that the ACS should be discontinued, the Department shall notify the Contractor at least sixty (60) calendar days prior to the termination date of the specific ACS.

d. ACS Operations Invoice

The Contractor's ACS price bid covers the entire Operations period. For each ACS, the Contractor shall prorate this price bid for each month of Operation from ACS implementation through the end of the Operations Phase. The Contractor shall submit an invoice for the prorated amount for each month of successful performance

during the Operations phase. Payment shall only be made upon successful performance of the ACS Operations.

## 5. Hourly Reimbursed Special Groups

Specially designated work groups shall perform certain defined activities. These groups include the Systems Group, and the Surveillance and Utilization Review Group.

Activities performed by these special groups will be compensated based upon an all-inclusive fixed hourly rate for each FTE (full-time equivalent defined as the maximum billable hours per contract phase for each hourly reimbursed special group) in each personnel classification comprising the group. This rate shall consist of all direct and indirect costs required to support these functions (except those specifically cost reimbursed), plus profit. The deliverables for which this hourly reimbursement rate shall apply will include actual hours worked, maintenance of required staffing levels, and additional individual deliverables.

Under no circumstances will the Contractor be paid for vacant positions, any leaves of absence, including sick leave, vacation, and administrative non-production hours such as training and staff meetings, or for work performed on activities not specifically authorized in the contract, except as authorized by the Contracting Officer. Further, the Contractor shall utilize, and make available to the Department, an automated system that records the amount of time each employee works on each assigned activity. This data shall be automatically collected into the automated system for all hourly-reimbursed positions and employees' hours, (billable and non-billable hours, as well as each employee's regular hours, leave of absence hours, and overtime hours). This automated system shall have the capability to generate reports and provide electronic access to the Department to view in a screen format all hourly reimbursed positions and employees; for each employee the billable and non-billable hours by activity as well as the employee's regular hours worked, leave of absence hours and overtime hours. This automated system shall also provide the capability to allow the Department to download the data and use this data by a commercially Personal Computer database and/or spreadsheet application. This automated system shall be linked to the Contractor's payroll accounting system and each employee's hours (billable and non-billable hours) must reconcile to the Contractor's payroll accounting system.

The Contractor may choose to utilize an existing commercially available system or develop its own system for this contract. If the Contractor elects to develop its own system, it will become part of CD-MMIS and will be subject to other CD-MMIS standards and requirements.

Hourly reimbursement as it applies to each special group individually, is addressed in the following Subsections.

### a. Systems Group

The activities performed by the Systems Group are described in Exhibit A, Attachment III, Change Requirements. The designated classifications and the number of FTEs required in each are shown here and are subject to revision.

<b>CLASSIFICATION</b>	<b>Number of FTEs</b>
Data Processing Technician	1
Documentation Specialist	2
Senior Systems Analyst	4
Senior Programmer Analyst	6
Systems Analyst	2
Senior Programmer	10
Programmer	3
IDMS Specialist	1
IDMS Data Dictionary Specialist	1
<b>Total</b>	<b>30</b>

Pursuant to Exhibit A, Attachment III, Change Requirements, the number of staff may vary throughout the duration of the contract.

Each FTE is based on eighteen-hundred (1800) hours per FTE per contract phase (one-hundred fifty (150) hours per month). The monthly contract threshold hours will be calculated by multiplying the authorized number of FTEs for each classification by one-hundred (150) (e.g., for the Programmer classification the calculation would be 3 FTEs x 150 = 4,50 FTE hours per month).

**b. Systems Group Fixed Hourly Rate**

The fixed hourly rate for each FTE in each personnel classification shall be stated in the completed bid submitted by the Contractor. The basis for payment of the fixed hourly rate will be actual utilization of available production hours indicated as payable in Exhibit A, Attachment III, "Change Requirements," exclusive of employee time off. The Contractor will be paid this fixed hourly rate monthly for each hour of production that is directly billable to a SG project. SG vacancies or time off which occur will not be reimbursed.

Twenty-five percent (25%) of the SG payment will be made based upon the utilization of the monthly available production hours. Seventy-five percent (75%) of the SG payment will be paid to the Contractor upon receipt of required scheduled deliverables and the approval of the Contracting Officer. The Contracting Officer will have authority to extend the completion date of SDN deliverables, if necessary.

**c. SG Payment Phases and Estimated Production Hours**

SG payment shall be divided into four phases commencing with Operations, Phase 1. The estimated available production hours during the first SG phase for each FTE position is up to a maximum of nineteen-hundred and fifteen (1915), thereafter the number of available production hours per FTE position per SG phase is up to a maximum of eighteen-hundred (1800) hours. There are more available production hours during the first SG phase because full staffing of the SG is required one week prior to the beginning of TAR processing.

The three (3) optional extension phases, Extension Phase 1, 2, 3, and Extended Operations consist of eighteen-hundred (1,800) FTE hours. Not all production hours

will be billable pursuant to the criteria established in Exhibit A, Attachment III, Change Requirements. If the Extended Operations Phase is exercised, the Contractor will be paid for each month extended at the bid rates for the preceding phase as adjusted by any change in the last year of the California Price Index immediately preceding commencement of the Extended Operations Phase.

d. Systems Group Invoicing

The Contractor shall submit invoices for each of the percentage payments in the Systems Group Fixed Hourly Rate section. That is, one invoice shall be for twenty-five percent (25%) SG payment for actual utilization of available billable production hours and one invoice shall be for seventy-five percent (75%) SG payment for completion, submission and approval of the scheduled deliverables. The twenty-five percent (25%) invoice for the required staffing levels will be presented for payment on a monthly basis to the Department. This invoice shall show all SG personnel by classification and their available production hours for that month. The Department will pay up to a maximum of two-thousand three-hundred and sixty-five (2365) hours per SG FTE during the first SG phase, and up to a maximum of eighteen-hundred (1,800) hours per SG FTE per SG phase thereafter. If vacancies occur, they shall be identified in the invoice, but not billed.

The Contractor will also report on the invoices, by individual, the number of required supervisors and change support staff and their available hours worked for that month. These hours are not separately payable. However, this information will be used to ensure the required number of supervisors and change support staff was available during the month.

The seventy-five percent (75%) invoice for completion, submission and approval of the scheduled deliverables shall be presented for payment to the Department when all work on the deliverables scheduled for that billing period have been completed and submitted to the Department within the time frames specified in Exhibit A, Attachment III, Change Requirements. If the Department requires that deliverables be rescheduled, then the Contractor will not be liable for commitments made under the previous schedule. Before payment is made, the Contracting Officer must approve/accept the SDN deliverables. Failure to meet the deliverables for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Lost of payment does not excuse the Contractor from submittal of the required deliverable.

## 6. Surveillance and Utilization Review (S/UR) Group

### a. S/UR Group Fixed Hourly Rate

The Director of S/UR and the assistant to the Director are not to be included as hourly-reimbursed positions. These positions shall be included in the fixed price bid for S/UR.

The fixed hourly rate for all other FTE in each personnel classification shall be stated in the completed bid submitted by the Contractor. The basis for payment of the fixed hourly rate will be actual hours, exclusive of unallowable time as defined above. The Contractor will be paid this fixed hourly rate monthly for each hour that is directly related to S/UR functions. If vacancies occur, they shall be identified in the invoice, but not billed.

### b. S/UR Subsystem (S/URS) Group Payment Phases and Estimated Production Hours

S/URS payment shall be divided into four phases commencing with the first day of claim processing. The estimated available hours for each phase for each FTE position are up to a maximum of eighteen hundred (1800) hours.

The three optional extension phases, Extension Phases one (1), two (2) and three (3), shall consist of eighteen-hundred (1800) hours each.

### c. S/UR Group Invoice

The Contractor shall submit two invoices monthly to the Department for the S/UR Group. One invoice will be for twenty-five percent (25%) of the utilized available production hours allotted to S/UR Group staffing for the month, and the other invoice will be for seventy-five percent (75%) payable upon submission and acceptance by the Department of the reports required in Exhibit A, Attachment II, Operations, Surveillance and Utilization Review Subsystem. The twenty-five percent (25%) invoice for actual utilization of available production hours will be presented to the Department for payment on a monthly basis. This invoice shall show all S/UR Group personnel by classification and their available production hours for that month. The Department will pay up to a maximum of eighteen-hundred (1800) hours per S/UR Group FTE position for each Operations phase. If vacancies occur, they shall be identified in the invoice, but not billed.

The Contractor shall ensure that the following contractual requirements have been met prior to the submission of the seventy-five percent (75%) S/UR Group invoice:

- 1) All phase profiling;
- 2) All other S/URS Reports;
- 3) All S/URS training when scheduled;
- 4) Beneficiary reviews;
- 5) S/UR Quality Review Committee;
- 6) S/UR Case Review Committee; and
- 7) S/UR Desk and on-site reviews/audits.

Payment will not be made for this invoice until such time that all deliverables are met.. Failure to meet the deliverables for a given month will constitute failure to provide the deliverable entitling the Contractor to payment. Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Lost of payment does not excuse the Contractor from submittal of the required deliverable.

## 7. Telephone Service Centers

All activities to be performed by the Provider Telephone Service Center (TSC) and the Beneficiary Telephone Service Center are described in Exhibit A, Attachment II, section 3 and section 8, respectively.

Provider/Beneficiary Telephone Service Center (telephone minutes) prices are to bid using BVMP based on the requirements of section 3.a., "Operations Payment Phase."

### a. Payment Phases and Volume of Telephone Minutes

The payment phases for each of the TSC's are the same as the Operations phases described section 3.a., "Operations Payment Phase."

RFP Exhibit 12-10 provides volume of telephone minutes for each payment phase and the three (3) extensions for TSC. These exhibits provide for:

- 1) A base volume of telephone minutes range for each payment phase;
- 2) A maximum volume range of telephone minutes for each payment phase; and
- 3) A minimum volume range of telephone minutes for each payment phase.

Payment and reconciliation will be completed as described in section 3.b, and 3c "Operations – Base Volume Method of Payment (BVMP) Phases" and Base Volume Method of Payment Reconciliation (BVMP) Calculation.

### b. TSC's Volume of Minutes Precedent to Payment

The Contractor TSC Telephone Minutes payments will be made for the Category when the TSC meets the performance requirements and standards of RFP Exhibit A, Attachment II, sections C 3 and 8.

Failure to meet the TSC requirements as listed in RFP Exhibit A, Attachment II, sections C.3 and 8, for a given month will constitute failure to provide the deliverables entitling the contractor to payment.

Compliance with a subsequent month's requirements will entitle the Contractor payment for that month, and any previous month for which payment was not received. For each month that deliverables are late, ten percent (10%) of the full payment for this category will be deducted for that month. For example, if compliance is not met in October and November, and met in December, payment will be made as follows: December one-hundred percent (100%), November ninety percent (90%) and October eighty percent (80%). If contractually required performance is not met for six (6) months, the Department's obligation to pay for this category is excused. For example, if deliverables due in January have not been submitted by July 31, payment for January will be lost. Lost of payment does not excuse the Contractor from submittal of the required deliverable.

c. TSC Payment Report

During Takeover, the Contractor shall develop and produce a billing report to submit with the monthly TSC invoice. The format of this report shall be the CP-O-495 currently being used for other BVMPs, such as ACSLs.

d. TSC Invoice

The Contractor shall submit two separate monthly invoices for each of the two TSC Operations (Provider and Beneficiary.) Supporting documentation substantiating the minutes for the invoice shall be submitted along with the TSC billing report.

## 8. Administrative Change Orders

The payment method for Change Orders will be fixed price, fixed rate or combination of the two (2). Certain Change Order costs may be paid under the Cost Reimbursement provisions as outlined in Exhibit B. Payment for Change Orders will be made after the Contracting Officer has approved the deliverables or the performance of work, or a combination of both, if applicable.

a. Change Order Invoice

The Contractor shall invoice the Department separately for Change Orders based on the requirements for each Change Order.

b. Change Order Conditions Precedent to Payment

The Department will determine the conditions precedent to payment upon development and implementation of the Change Order.

## 9. Hourly Reimbursements

a. Computer Central Processing Unit

The Contractor will be reimbursed for computer central processing unit (CPU) time necessary for the production of special reports and special files that may be

permitted/authorized in Exhibit A, Attachment I3-8.1. The CPU time spent on the production of the aforementioned reports and files will consist of actual, verifiable system time, and documentation of such time shall accompany the Contractor's invoice. This CPU time, multiplied by the bid rate, will be the amount paid to the Contractor.

b. Hourly Reimbursement Invoice

The Contractor shall invoice the Department separately and monthly for all hourly reimbursement items and identify the specific category.

**10. Cost Reimbursement**

As described in this section, the Department will reimburse various costs incurred by the Contractor in performing responsibilities under the contract. Such costs shall consist of direct costs, or subset thereof, which can be specifically identifiable with the particular cost objective and, where costs are incurred under the printing category below, indirect costs allocated using the cost input basis stated in the Contractor's Cost Reimbursement Plan submitted annually to the Department for the Contracting Officer's approval. In the event of a dispute as to whether any costs are in fact direct costs, it is the intent of the Department that "direct cost" shall be narrowly construed. This section identifies the cost reimbursable categories that are not included in the Contractor's prices.

a. Cost Reimbursement Categories

1) Postage

The Department will reimburse only the actual charges paid for U.S. Postal rates utilized to mail documents to providers, beneficiaries, the State, the federal government or for any other Medi-Cal or State program-related business. Return envelope postage is also reimbursable. This excludes all other direct or indirect costs associated with postage as cost reimbursable items.

2) Parcel Services and Common Carriers

The Department will reimburse only the actual charges paid for parcel services and common carriers for the delivery of:

a) Medi-Cal and other dental program claim and Treatment Authorization Request (TAR) forms to providers; and

b) Documents, materials, and equipment to providers, beneficiaries, and State or federal offices.

This excludes all direct or indirect costs associated with parcel services and common carriers charges as cost reimbursable items.

3) Printing

Costs to print the following forms and related envelopes for mailing such forms, documents and other Department program printing requests, as directed by the Department, are reimbursable:

- a) Medi-Cal and other dental program claim forms to include TARs, NOAs, and CIFs;
- b) Claim Appeals Forms;
- c) TAR Corrections Documents;
- d) Applications given to providers for provider enrollment in special programs (e.g., EFT, Provider Billing Software, etc.);
- e) Provider Manuals, Bulletins, State-issued Letters, and Updates to include copies for the State and federal government;
- f) Beneficiary Notices; and
- g) User Guides or manuals developed for providers.

4) Telephone Toll Charges

The Department will reimburse only the actual telephone utility charges paid for by the Contractor for maintaining toll-free lines available to providers for provider services; for providing telephone lines for the Audiotext equipment; and other beneficiary or provider use lines that may be added by Change Order. Each toll charge incurred by the Contractor will be reimbursed by the Department and must be directly supported by a billing from the telephone utility. This excludes all other direct or indirect costs associated with telephone toll charges. An additional exclusion from this category are charges and calls to the Contractor for any activity not stated in Exhibit A, Attachment II, and any costs incurred for maintenance, equipment, wiring, repair, or facilities installation.

5) Audiotext Equipment Purchase, Repair, Replacement, and Maintenance

The Contractor will be required to operate an automated provider inquiry system to address routine provider questions dealing with checkwrite data, claim status information, TAR continuing care status, inquiries, and general information. The basis of this system will focus on available Audiotext equipment. The Department will reimburse the direct costs for the purchase or lease of necessary equipment and the ongoing repair, replacement, and general maintenance of this equipment, to the Contractor. Indirect costs shall not be reimbursable.

6) Knox-Keene Annual Assessment

Knox-Keene Annual Assessment refers only to the annual assessment levied by the Department of Managed Health Care (DMHC), authorized by the regulations promulgated under the Knox-Keene Act for the Medi-Cal dental contract, and only to the cost of the initial application filing-fee of the Knox-Keene licensure for the Medi-Cal contract, if filed after award of this contract. Should any portion of

the assessment be returned to the Contractor by the DMHS, said portion shall be refunded to the Department. Any fees and associated costs for renewal of the license shall be included in the Operations bid.

The Department will cost reimburse the Knox-Keene Assessment levied for the Operations phase of this contract as well as the cost charged by the DMHC of any initial application as required in this contract. The Department will pay only direct costs as billed by the DMHC for the Medi-Cal Dental Program.

The Contractor shall invoice the Department annually for the Knox-Keene assessment paid to the DMHC.

7) Data Center Access

The Contractor shall establish an agreement with the Health and Human Services Data Center (HHSDC) for computer access to records contained in the Fiscal Intermediary Access of Medi-Cal Eligibility (FAME) and utilize its telecommunications network. The Department will reimburse only the actual charges incurred by the Contractor for access to these records, as billed by HHSDC. No other direct or indirect costs will be allowed.

8) Special Training Sessions

At the direction of the Contracting Officer, the Contractor will be required to conduct special training sessions as discussed in Exhibit A, Attachment II, section S. The Department will reimburse the Contractor for rental of a facility, if necessary, and travel and per diem expenses as specified in Exhibit D(F), section 2. No other direct or indirect costs will be allowed.

9) Convention Cost

Costs related to conventions or health fairs shall be reimbursed by the Department. Costs reimbursable under this category include the cost of the booth, signs, buttons, and any related expenses. Travel and per diem expenses are reimbursable under the guidelines set forth in Exhibits E. The Contractor shall secure Department approval prior to participation in any conventions or health fair. Any cost related to a convention or health fair without prior Department approval shall not be reimbursable. Only those costs related directly to the Medi-Cal Dental Program shall be reimbursed.

10) Facilities Improvement and Modifications

The Contractor is required to provide adequate facilities to State or federal on-site audit and monitoring staff. Such facilities shall be included in the fixed price. However, the Department may require that the Contractor make certain modifications and improvements to these facilities, such as the addition of walls, partitions, electrical, cables, telephones, and secure other equipment and monitoring tools necessary for the Department to oversee this contract. The direct costs for these modifications and improvements shall be reimbursed by the Department. No indirect costs shall be reimbursed.

## 11) Cost Reimbursed Audits (as applicable) and Research

The annual audits of the Pure Premium Fund and Financial Viability and Electronic Data Processing Application Systems will be cost reimbursed for the direct cost of the audit if the Department requires the Contractor to subcontract for the audits. Surveys and studies, as approved by the Contracting Officer, shall be cost reimbursed for the direct cost. No other direct and indirect costs shall be reimbursable.

## 12) Independent Verification and Validation Consideration

The Department reserves the right to require the Contractor to contract with a Department-approved Independent Verification and Validation (IV&V) contractor for the development and/or implementation of large/complex system changes. The IV&V shall be reimbursed according to the Cost Reimbursement provisions of the contract.

## 13) Miscellaneous

This cost reimbursement category is for the sole use of the Department to allow the Contractor to carry out its contractual requirements outlined in Exhibit A, but not defined in other cost reimbursement categories. When submitting invoices for this category, the Contractor shall submit evidence of Department approval for use of this category, along with vendor invoices to substantiate all charges.

## b. Cost Reimbursement Invoice

Each cost reimbursement category will be invoiced separately as a subset of a single cost reimbursement invoice on a monthly basis. Sales tax, if applicable, should be included in the appropriate category and not invoiced separately.

## c. Cost Reimbursement Plan

The Department shall require a yearly Cost Reimbursement Plan from the Contractor. Such plan shall be submitted on a date established by the Contracting Officer, and shall be effective upon approval by the Contracting Officer. The Cost Reimbursement Plan shall:

- 1) Outline the major areas of expense by cost reimbursement category;
- 2) Delineate methods for reducing costs for each cost reimbursement category (on the basis of the previous years' plans);
- 3) Include an allocation plan for the distribution of direct and, as it pertains to cost reimbursed printing activities, indirect expenses into appropriate cost reimbursement categories. The allocation plan must specify the allocation methodology used to distribute indirect costs to the printing function;

- 4) Specify policies and procedures for collecting and compiling cost reimbursement expenses, and for ensuring that non-cost reimbursable expenses are not billed to the Department;
- 5) List, in detail, all cost reimbursable expense line items, the specific invoice category each is billed under, and for each, the accounting number/project code used within the Contractor's accounting system;
- 6) Specify the project purchases and leases for the upcoming year.
- 7) Specify the numbers and classifications of cost reimbursable staff. The current salary range for each classification of staff billed under cost reimbursement shall be kept on file and made available to the Department upon request;
- 8) Include a complete inventory of cost reimbursement (i.e., State owned or leased) items, including equipment and software. The inventory shall list each item, the manufacturer, model number, the location, the serial number, the purchased/leased price, lease term, maintenance cost, inventory tag number, lease/maintenance contract number(s), telephone circuit number (for modems), and (for purchased items) the depreciated balance. This list shall be sorted by the location and within the location, by item. The Contractor shall conduct a physical inventory of all cost reimbursement items and submit an updated inventory list to the Department for review and approval annually;
- 9) Include a list of key workload indicators within the cost reimbursement program, the monthly volume for each indicator for the previous year and projected volume for the following year. These indicators shall include impression count, counts of forms printed and imprinted (by type of form), supply expenses, postage expenses, labor expenses, and computer peripheral (e.g., monitor, printer, controller, modem) counts broken out by leased versus purchased, counts of active providers on the Provider Master File (PMF) and, separately, on the Non-Provider List; and
- 10) Include a description of the method the Contractor will use to maintain control of the location and transfer of cost reimbursement equipment, both at the Contractor's and the Department's sites.

#### **11. Restrictions on Reimbursable Purchases and Subcontracts**

There are several items of the contract reimbursed by cost where the Contractor purchases or pays for services or fees on behalf of the Department. These items are:

- a. Postage;
- b. Parcel Services and Common Carriers;
- c. Delivery of Medi-Cal claim forms;
- d. PCs, monitors, printers, related equipment, and software;

- e. Purchases and subcontracts for printing;
- f. Telephone toll charges;
- g. Audio text equipment purchase, repair, replacement, and maintenance;
- h. HHSDC access;
- i. Special training sessions; and
- j. Audits, Research, Surveys, and Studies

Except as defined below, the Department will not pay any indirect expenses related to the administration of these items. In order for the Contractor to avoid incurring indirect expenses on these items, the Department will allow the Contractor to forward the vendor's/subcontractor's paper invoices to the State. The Contractor is required to provide the Department with required supporting documentation.

Payment to the Contractor for subcontracts or purchases of cost reimbursable items, services or equipment shall be the actual cost to the Contractor. Such actual cost shall consist of the amount charged to the Contractor for the subcontract or the purchase. The Contractor shall also be paid the other direct costs associated with procuring and managing the subcontracts or purchases and indirect expenses based upon the labor needed to perform these tasks.

Under no circumstances will the Department reimburse indirect costs associated with the amount of a subcontract or purchase of cost reimbursable items, services or equipment. This prohibition includes overhead and general and administrative expenses, as a percentage of a third party's charges to the Contractor.

Under certain conditions, indirect rates can be applied to cost reimbursement expenses. Following the annual fiscal reconciliation of the indirect rate, this new reconciled rate shall become the indirect contract rate for both cost reimbursed expenses and non-executed Change Orders.

Under no circumstances will the Department pay cost reimbursement for overhead for Department space. The Department space included in the Takeover and Operations fixed price bids should include all overhead costs associated with the use of the facilities including the common space in Contractor facilities such as the hallways, rest room facilities, and cafeteria/snack bar. In addition, the common space overhead in the Contractor claims processing facilities cannot be allocated to the print shop or the Record Retention Center.

## 12. Turnover

The Turnover period constitutes all work activities required of the Contractor as defined under Exhibit A, Attachment IV, Turnover. Also included is any work that may occur during Turnover required under Exhibit C, General Terms and Conditions, Exhibit D(F), Special Terms and Conditions, and Exhibit E, Additional Provisions, as well as Exhibit A, Attachment III, Change Requirements (except for the SG).

If the incumbent is the successful bidder for the replacement of this Contract, and special Turnover services are not needed, then the Contractor's Turnover price shall be reduced by Change Order so that the Contractor shall not be paid for Turnover Preparation and Transfer of Contractor Operations.

If the Department elects to exercise its option to extend the contract by use of Extension Phases 1, 2, 3, or Extended Operations, the bid rate for Turnover shall be adjusted by any change in the California Consumer Price Index (CCPI) during the time period for which Operations is extended. Therefore, for Extension Phase 1, 2, 3, or Extended Operations, the bid amount will be adjusted by the CCPI for the same time period as Extended Phase 1, Extended Phase 2, or Extended Phase 3, respectively. Multiple extensions and adjustments may occur.

a. Turnover Invoicing

Fifty percent (50%) of the turnover price shall be paid in nine equal installments, the first of which shall be made upon acceptance and approval of the Turnover Work Plan. Thereafter, the eight (8) remaining installments will be paid in the last eight months of contract Operations/Turnover. These installment payments shall be contingent upon receipt of deliverables, achievement of milestones, and the acceptance/approval of the Contracting Officer. The remaining fifty percent (50%) of the Turnover bid price shall be payable upon completion of all the requirements specified in Exhibit A, Attachment V, Turnover.

### 13. Runout Processing

Runout constitutes all work activities required of the Contractor during Runout. Also included is any work that may occur during Runout required under Exhibit A, Attachments II, III, V, and Exhibit E.

If the Department elects to exercise its option to extend the contract by use of either Extension Phases 1, 2, 3 or Extended Operations, the bid rate for Runout shall be adjusted by any change in the California Consumer Price Index (CCPI) during the time period for which Operations is extended. Therefore, for Extension Phases 1, 2, 3, and Extended Operations, the bid amount for Runout will be adjusted by the CCPI for the same time period as Extension Phase 1, 2 and 3, or Extended Operations, respectively. Multiple extensions and adjustments may occur.

a. Runout Invoice

The first fifty percent (50%) of the Contractor's Runout bid price shall be paid in seven (7) equal monthly installments payable beginning the month following the end of the Pure Premium Period, provided that the conditions precedent to payment are met. For the first six (6) months of Runout Processing, Conditions Precedent to Payment, for fifty percent (50%) of the Runout processing installment shall be the cycle time requirements listed above; the Conditions Precedent to Payment for the remaining fifty percent (50%) of the installment shall be for Runout Deliverables as specified in Exhibit A, including but not limited to file and record transfers. For the

final seventh (7<sup>th</sup>) month, the Conditions Precedent to Payment for one-hundred percent (100%) of the final installment shall be timely transfer of the residual inventory and records required during the first month of Contract Closeout. Cost Reimbursement, TTS, and Hourly Reimbursement payments will continue through Runout Processing.

The remaining fifty percent (50%) of the Runout bid price shall be payable upon completion of all the requirements for Runout specified in Exhibit A.

Any reduction in required Runout Services shall be done through a cost savings Change Order.

#### 14. Invoicing

The Contractor shall provide invoices in triplicate; the original paper copy of the invoice and supporting documentation and one paper copy of the invoice and supporting documentation to the individual designated by the Contracting Officer. In addition to the paper copies, the Contractor must submit the invoice and supporting documentation in electronic media format. During Takeover, the Contractor will work with the Department on the development of the electronic media invoice and supporting documentation. The Department will deny or reduce any invoice that the Contractor has improperly billed.

#### 15. Underwriting

##### a. Description

The four-year (4) insured dental benefits coverage period underwritten by the Contractor shall commence on the first (1<sup>st</sup>) day of full Operations. The Department shall have exclusive right to extend the term of the contract for up to three (3) separate extensions of one (1) year each, thus extending the underwriting period. Each underwriting year of the four-year (4) insured dental benefits coverage period and each of the three (3) extension years shall consist of twelve (12) months each (except for the first (1<sup>st</sup>) year of full operations, which will be fifteen (15) months as noted in Exhibit E) and shall be based upon the date a service was provided to a beneficiary.

The underwriting period during which the Contractor receives a prepaid monthly Pure Premium Payment from the Department to provide insured dental benefit coverage to eligible Medi-Cal beneficiaries shall be referred to as the Pure Premium Period (PPP). The PPP shall consist of four years of underwriting and may consist of up to an additional three (3) separate extensions of one (1) year each.

The Contractor shall guarantee the payment of Medi-Cal covered dental benefits beginning with dates of services on the first day of the PPP and continuing through the end of the PPP. Included in the Contractor's underwriting guarantee is the obligation to authorize the provision of Medi-Cal dental services in accordance with Medi-Cal program policy. The Contractor shall remain responsible through the fifteen (15) months of the Runout period following the end of the PPP for payment of

Medi-Cal covered claims for dates of service during the PPP. Consequently, pure premium moneys paid to the Contractor for the PPP shall be kept separate, available, and in a form and manner required for the Pure Premium Fund (PPF) for the full fifteen (15) months following the end of the PPP. All accounting and audit requirements described in this agreement shall apply during the Runout period. The final pure premium gain and loss accounting for the contract shall occur after Runout. In accordance with the description of contractual services in this contract, the Contractor must guarantee and assume liability for the payment of all Medi-Cal dental claims incurred in connection with covered dental services rendered within the PPP of the contract.

The PPF shall be used to account for all transactions for underwriting the insured dental benefits. The PPF shall also include cost reimbursement transactions for insured dental benefits coverage, although these transactions will not be used to determine underwriting gain or loss defined in this Exhibit B. All interest and investment income and recoveries shall be deposited in the PPF. If, at any time, the PPF balance is insufficient to pay provider claims, the Contractor shall transfer funds from the Medi-Cal Contingency Reserve (defined in Exhibit E, section 38) to the PPF to pay for those claims.

b. Determination of Payment

Payment to the Contractor for insured dental benefits coverage under this contract shall be in accordance with the requirements set forth in 42 CFR 447.361.

Payment to the Contractor for insured dental benefits coverage under the contract shall be in two areas: Cost Reimbursement and Guaranteed Per Capita Pure Premium Rate, hereinafter "Pure Premium Rate." The Pure Premium Rate consists of a rate for refugees and a rate for all others.

1) Cost Reimbursement – Insured Dental Benefits Coverage

There are uniquely identifiable and distinct beneficiary groups, or categories of benefits, that are exempt in determining the Pure Premium Rate as defined below. The Contractor shall be cost reimbursed on the basis of actual fee-for-service costs limited to the maximum allowable listed on the Medi-Cal Dental Schedule of Maximum Allowances (SMA) for incurred claims involving an exempt beneficiary group or category of benefits. Services that are not in the scope of Medi-Cal benefits are not subject to the limits of the SMA.

Claims paid under Cost Reimbursement – Insured Dental Benefits Coverage shall not be used in the determination of the Pure Premium Rate or the calculation of underwriting gain/loss.

a) New Groups or Categories of Benefits

Uniquely identifiable and distinct beneficiary groups, or categories of benefits, may emerge which were not considered in determining the Pure Premium Rate. Although such groups or categories may be allowable for Pure Premium Rate adjustment, they may exist temporarily, intermittently (possibly

the result of a judicial ruling or special program) or expected to exist on a continuous basis but lack a sufficient historical database to reliably predict their impact on program expenditures.

As an alternative to an adjustment to the Pure Premium Rate, the Contracting Officer may determine that it is more practical for the Department to reimburse the Contractor directly on the basis of actual fee-for-service costs limited to the maximum allowable listed in the SMA for incurred claims involving the beneficiary group or category of benefits.

Any additional compensation to the Contractor for unique or exceptional claims processing costs arising as a result of this provision and not included as a basis for the established administrative charges, shall be subject to change order requirements identified in Exhibit A, Attachment III, Change Requirements.

b) Excluded Beneficiary Groups and Categories of Benefits

The Department shall reimburse the Contractor on the basis of actual fee-for-service costs limited to the maximum allowable listed in the Schedule of Maximum Allowances for incurred and paid claims for the CMSP, CTP, CCS/GHPP, and Healthy Families. However, the ACSL and TAR processing costs arising from these categories are included in the fixed price bid for Operations. The Data Library will contain an approved listing of procedure codes and applicable Aid Codes.

The Department may, 30 calendar days in advance of the time of the annual rate determination, elect to include part or all of the excluded groups and/or categories in the guaranteed Pure Premium Rate. If the Department takes this action, which it may upon its sole determination, the impact of this change will become a part of the annual rate determination as explained within this Section t.

c) Services Not in the Scope of Benefits

The Contractor shall be liable for paying dental claims resulting from either Dental Scope Fair Hearings or court action, including small claims court. However, upon the request of the Contractor, the Contracting Officer shall make a ruling on the scope of benefits of the services awarded to the beneficiary as a result of a Dental Scope Fair Hearing or court action. If the Contracting Officer determines the service(s) authorized by the Dental Scope Fair Hearing or court action is beyond the Medi-Cal dental scope of benefits, the Department will cost reimburse the Contractor the actual cost of these services. All other State Fair Hearing rulings or court actions shall not be subject to cost reimbursement. As required in this Exhibit, the Contractor shall separately identify on the billing statement the billed amounts for such services not within the scope of benefits. However, the ACSL and TAR processing costs arising from these categories shall be included in the fixed price bids for Operations.

## d) Prior Contract Claims

The Contractor will be cost reimbursed for the amount of incurred claim lines with dates of service prior to the effective date of Underwriting Year One, but submitted after the Runout period for the prior contract. The cost reimbursement shall be actual fee-for-service costs limited to the maximum allowable listed on the SMA for incurred claims paid by the Contractor. The provisions for billing are described in the Cost Reimbursement section below.

Claim documents with dates of service that include services rendered during both the prior contract and Contractor's PPP shall be paid by the Contractor. Only those claims lines for services before the beginning of this contract's PPP shall be cost reimbursed to the Contractor. The costs shall be actual fee-for-service costs limited to the maximum allowable listed on the SMA for incurred and paid claims. The provisions for billing are described in the Cost Reimbursement section below.

The cost of these services shall be separated from the incurred claims of this contract and shall not be used in the calculation of annual gain/loss determination. Separate records of payments and ACSLs under the prior contract shall be maintained by the Contractor. However, ACSLs for prior contract claims shall be paid at the rates bid for Operations - ACSLs.

## 2) Guaranteed Per Capita Pure Premium Rate

Payment to the Contractor for insured dental benefits coverage shall be determined on the basis of a guaranteed Per Capita Pure Premium Rate (Pure Premium Rate) during each underwriting year for each of two groupings of beneficiaries, refugees and all other Medi-Cal beneficiaries eligible for services under this contract. The formula for determination of the Pure Premium Rate is in [Appendix #\\_3\\_](#). The Pure Premium Rate shall include an appropriate adjustment for interest and investment earnings as defined in [Appendix # 3](#). Medi-Cal dental fee-for-service program experience is provided in the OMCP Data Library for bidders' use in developing a proposed Pure Premium Rate for negotiation with the Department during the procurement and with the Payment Systems Division after the contract effective date.

For purposes of this section, "Refugee" means a Medi-Cal beneficiary with Aid Code 0A, 01, 02, 07, or 08 (as defined effective July 1, 1982) and for whom the Director of the Office of Refugee Resettlement, federal Department of Health and Human Services, is authorized to provide assistance and/or reimbursement to states for up to one-hundred percent (100%) of the assistance provided to any refugee pursuant to Public Law 96-212.

For purposes of this section, all other Medi-Cal beneficiaries consist of all other Medi-Cal beneficiaries not in a cost reimbursed group or category or a prepaid program that covers dental services.

The Pure Premium Rates shall not include any amounts for recoupment of losses suffered by the Contractor for risks assumed under the contract or a prior contract between the Contractor and the Department.

The Pure Premium Rate for each Underwriting Year shall remain in effect for one (1) year except as discussed below.

Only claims paid under the guaranteed Per Capita Pure Premium Rate shall be used in the calculation of underwriting gain/loss.

a) Advance Monthly Pure Premium Payments

The Department shall make advance monthly Pure Premium Payments to the Contractor for insured dental benefits coverage for each grouping of beneficiaries.

The advance monthly Pure Premium Payment for each grouping made by the Department to the Contractor shall be calculated as the product of:

- i. The guaranteed Per Capita Pure Premium Rate in effect during the month of coverage; and
- ii. The Department's formal estimate of the number of eligible Medi-Cal beneficiaries per month as specified in the contract or revised by the Contracting Officer.

For purposes of this calculation, the most current Department formal estimate of the number of eligible Medi-Cal beneficiaries per month available prior to the time the RFP is issued shall be entered in the contract. The estimate, interim, and final eligible beneficiary count are computed by the unduplicated count of beneficiaries by Social Security number or pseudo Medi-Cal Eligibility Data system (MEDS) number. The most recent formal estimate shall be used at the time of payment to compute the calculation of the payment to the Contractor. The Contractor shall be notified of the revision of the formal estimate by letter.

At the option of the Contracting Officer, the contractually stipulated estimate of the number of eligible Medi-Cal beneficiaries per month for each grouping may be updated by letter on a semiannual basis. Revision of the estimate shall be made in a manner that accurately reflects emerging experience. Revision of the estimated number of eligible beneficiaries shall not affect the Pure Premium Rate in effect for the specific underwriting period in progress unless the cause for the change is covered under the mid-year rate change provision.

b) Pure Premium Payments Adjustments – Each Month of Coverage

Each advance Pure Premium Payment for each grouping (refugees and all other Medi-Cal beneficiaries eligible for service under this contract) made by the Department to the Contractor for a month of coverage, shall be subject to

two (2) future adjustments. The first (1<sup>st</sup>) adjustment shall be based upon the variance between the estimated number of eligible Medi-Cal beneficiaries entered in the contract or as revised pursuant to, for that month of coverage and an interim six-month (6) beneficiary count for the same month. The final adjustment shall be based on the variance between the interim six-month (6) eligible beneficiary count and the final 12-month (12) reconciled beneficiary count made for that month of coverage. The interim and final count is taken from the FAM-110 report produced by the Department's Information Technology Systems Division.

For Pure Premium Payment purposes, the interim eligible beneficiary count for any month of coverage shall be based upon the Department's reconciled eligibility file as of the first (1<sup>st</sup>) day of the seventh (7<sup>th</sup>) month subsequent to the month of coverage, and final eligible beneficiary count shall be based upon the reconciled eligibility file as of the first day of the thirteenth month subsequent to the month of coverage. The Department intends to report the interim and final count to the Contractor within thirty (30) calendar days of the first (1<sup>st</sup>) of the month in which the counts are completed.

c) Interim Pure Premium Payments Determination—Each Month of Coverage

The variance between the interim reconciled eligibility beneficiary count and the original or updated estimate of the number of beneficiaries per month of coverage, shall determine the amount by which the advance payment for each grouping to the Contractor shall be adjusted for the first adjustment.

Where the interim reconciled eligible beneficiary count for any month of coverage is greater than the original or updated estimate for that month of coverage, the Contractor shall be entitled to a supplemental payment in an amount equal to the Pure Premium Rates in effect during that month multiplied by the number of eligible beneficiaries by which the reconciled count exceeds the contract estimate.

Where the original or updated estimate is greater than the interim reconciled eligible beneficiary count for any month of coverage, the Department shall be issued a credit in an amount equal the Pure Premium Rates in effect for that month of coverage multiplied by the number of beneficiaries by which the contract estimate or updated estimate for that month of coverage exceeds the reconciled count. The amount of credit will offset future Pure Premium Payments to the Contractor.

d) Final Pure Premium Payments Determination—Each Month of Coverage

The variance between the final reconciled eligibility beneficiary count and the interim reconciled eligibility beneficiary count of the number of eligible beneficiaries per month of coverage shall determine the amount by which the advance payment for each grouping to the Contractor shall be adjusted for the final adjustment.

Where the final reconciled eligible beneficiary count for any month of coverage is greater than the interim reconciled eligibility beneficiary count for that month, the Contractor shall be entitled to a supplemental payment in an amount equal to the Pure Premium Rates in effect during that month multiplied by the number of eligible beneficiaries by which the final reconciled account exceeds the interim reconciled count.

Where the interim reconciled eligibility count is greater than the final reconciled eligible beneficiary count for any month of coverage, the Department shall be entitled to a credit in an amount equal the Pure Premium Rates in effect during the month multiplied by the number of eligible beneficiaries by which the interim reconciled count exceeded the final reconciled count. The amount of credit shall offset future Pure Premium Payments to the Contractor.

Upon the request of the Contractor, the Contracting Officer will supply to the Contractor supporting documentation with regard to the final reconciled eligible beneficiary count for any month of coverage within the underwriting period of the contract.

e) Pure Premium Rates

The Annual Pure Premium Rates Change Order shall establish the Pure Premium Rates for all years, including the three (3) one-year (1) extensions.

If the start of underwriting responsibilities for this contract is delayed, the Department reserves the right to either shorten the four (4) year underwriting period or extend the four-year (4) underwriting period a commensurate period of time. The Contracting Officer shall decide whether the Pure Premium Rates should be adjusted for any change to the underwriting period.

In the event changes as allowed by 42CFR 434.14(b) result from legislation, regulations, or court actions prior to or during the first underwriting year, and those changes were not in existence at the time of the rate negotiations, the Contracting Officer might adjust the Pure Premium Rates. Such adjustment to the Pure Premium Rates shall be made through a Mid-Year Pure Premium Rate Change Order and shall be made based on the adjustment that is needed to the original negotiated rates, and the revised rates shall be added as an adjustment to the originally negotiated rates. This adjustment shall be made to only offset additional costs for the reasons identified in this paragraph.

The contract describes the specific requirements and changes that are a part of the contract and shall be included in the originally negotiated rate

f) Annual Setting of New Pure Premium Rates

The Department shall initiate the annual setting of new Pure Premium Rates not less than one-hundred and twenty (120) calendar days prior to the beginning of the new underwriting year, by presentation to the Contractor of a

rate proposal containing actuarial assumptions for the upcoming contract year and a list of additional contractor responsibilities if appropriate. The new Pure Premium Rates shall be made effective upon approval of an Annual Pure Premium Rates Change Order. The Generalized Rate Formula applied to calculate base Pure Premium Rates is described in [Appendix #\\_3\\_](#).

Not later than ninety (90) calendar days prior to the beginning of the new underwriting year, the Contractor shall submit to the Department comments and questions of fact, including those related to trend assumptions on the new Pure Premium Rate. The Department will consider these comments and modify the rates if it is determined they have not been adequately addressed in the proposed rate. Discussion of the new Annual Pure Premium Rates shall be concluded and formalized ninety (90) days prior to the beginning of the new underwriting year. This will allow sufficient time for the Department to obtain the required approvals from control agencies prior to the proposed effective date of the new Pure Premium Rates.

In the event that the new Annual Pure Premium Rates is either not established or approved by the start of the new underwriting year, the Contractor shall continue the payment of Medi-Cal covered dental benefits pursuant to the Contracting Officer's direction, including any policy or procedure code rate changes. The existing Annual Pure Premium Rates shall remain in effect until such time as the new Annual Pure Premium Rates become effective following approval of the Annual Pure Premium Rate Change Order by control agencies.

In cases where additional information is necessary to finalize determination of the Pure Premium Rates, the Contractor shall provide the needed information within ten (10) calendar days of receipt of a written request from the Contracting Officer. These written requests will be sent "return receipt requested." After the parties reach an agreement, the agreement shall be executed through the issuance of the Annual Pure Premium Rates Change Order by the Contracting Officer, which shall be subject to approval by the control agencies. Upon control agency approval of the change order, the new Annual Pure Premium Rates shall be in effect and made effective retroactive to the start of the new underwriting year, and appropriate premium adjustments based upon the new rate shall be made for those months in which the prior year's rate was paid.

g) Disagreement on New Annual Pure Premium Rates

If the parties do not agree on new Annual Pure Premium Rates as provided in above within thirty (30) calendar days prior to the beginning of the new underwriting year, the Contracting Officer may immediately issue an Annual Pure Premium Rates Change Order, as described above. This Annual Pure Premium Rates Change Order is subject to neither the provisions governing Administrative Change Orders nor to the provisions governing Mid-Year Pure Premium Rate Change Orders. Subject to the disputes/appeals provisions, the Annual Pure Premium Rates Change Order shall establish the Pure Premium Rates for the entire underwriting year. In the Annual Pure Premium

Rates Change Order, the Contracting Officer shall determine the new Annual Pure Premium Rates.

- i. During any time period for which the Contracting Officer has not set the new Annual Pure Premium Rates or during any approval period required by the control agencies, if agreement has not been reached on a new rate, the prior year's rate shall remain in effect as an interim rate;
- ii. If no dispute or appeal is filed from the Annual Pure Premium Rates Change Order, upon approval by the control agencies of the Annual Pure Premium Rate Change Order, the Department shall pay the rate established in that document, the new rate to be effective retroactive to the first (1<sup>st</sup>) day of the underwriting year; and
- iii. If a dispute or appeal is filed from the Annual Pure Premium Rates Change Order, it shall proceed as provided in. During the dispute and appeal procedures, the new Annual Pure Premium Rates set by the Contracting Officer via the Annual Pure Premium Rates Change Order shall remain in effect as an interim rate. At the conclusion of the dispute appeal process, the final rates for the entire underwriting year in question shall be set forth in the decision subject to control agency approval. When the final rates differ from the rates actually paid during elapsed portions of the underwriting year in question (including the initial interim rates and the rates as adjusted by the Contracting Officer via the Annual Pure Premium Rates Change Order), appropriate retroactive Pure Premium Payment adjustments shall be made.

h) Mid-Year Pure Premium Rate Change

Except as permitted by 42CFR 434.14(b), the Pure Premium Rate shall be subject to revision only once annually. Procedures applying to the annual rate adjustment are set forth in subsection (f) above.

The Department may, under some circumstances, choose cost reimbursement in lieu of a change in the existing Annual Pure Premium Rate.

Other than the annual setting of the new Pure Premium Rates, all rate changes permitted by 42CFR 434.14(b) shall be initiated by change order, herein referred to as a Mid-Year Pure Premium Rate Change Order. The Contracting Officer may, at any time permitted by 42CFR 434.14(b) written order, without notice to the sureties, if any, make changes within the general scope of this contract.

In the Mid-Year Pure Premium Rate Change Order context, the following procedures shall apply.

- i. In such a change order, the Contracting Officer shall direct implementation of the change(s); the Contractor is obligated to implement the required changes at the implementation dates required pursuant to the Contracting Officer's direction. The Contractor shall submit revised Pure Premium Rates or a certification that there is no price impact,

together with actuarial assumptions, including, but not limited to, those required by this Section, within thirty (30) calendar days of the date of the change order. At that time, discussion on this change order shall begin. The Annual Pure Premium Rate in effect at the time the change order is issued shall remain in effect until such time as the Mid-Year Pure Premium Rates become effective, following approval of the control agencies. The Contractor and Department shall negotiate in good faith to reach agreement of the Mid-Year Pure Premium Rate Change Order. In cases where additional information is necessary, the Contractor shall provide the needed information within ten calendar days of receipt of any written request from the Contracting Officer. These written requests shall be sent return receipt requested. After the parties reach an agreement, the Mid-Year Pure Premium Change Order shall be executed, subject to approval by the control agencies. Upon control agency approval of the change order, appropriate premium adjustments based upon the Mid-year Pure Premium Rates shall be made for those months in which the previous rate was paid.

If the parties are unable to reach an agreement within ninety (90) calendar days of the ordered implementation, the Contracting Officer shall set the Mid-Year Pure Premium Rates that shall be in effect upon approval of the control agencies. The new rates shall be effective retroactive to the implementation date specified in the change order unless an appeal or dispute is filed. If the Contractor wishes to contest the rate set by the Contracting Officer, it shall proceed as provided in Exhibit E. The rate set by the Contracting Officer shall be subject to revision, and payment will be adjusted retroactively if a different rate results from the final decision of an appeal or dispute.

The Contractor shall, through the Quality Management Unit, implement control, tracking, and reporting functions related to Mid-Year Pure Premium Rate Change Orders from the time of their ordered implementation. Such functions shall include, but not be limited to, the following:

- A. Acknowledgment within two (2) State workdays of receipt of the Mid-Year Pure Premium Rate Change Order;
  - B. Establishment and maintenance of a tracking and reporting system to report weekly to the Department relevant data, including, but not limited to, cost data specific to the program as defined by the change order change(s) on an ongoing basis, and any cost impact on other covered services; and
  - C. Changes to the administrative portion of this contract shall be handled via the Administrative Change Order portion of Exhibit E.
- ii. All contract references to change orders in the Mid-Year Pure Premium Rate Change Order context are to be read with the understanding that such change orders are permissible only as allowed by 42CFR 434.14(b).

The Mid-Year Pure Premium Rate Change Order is subject to neither the provisions governing Administrative Change Orders, nor to the provisions governing Annual Pure Premium Rate Change Orders.

All amendments and change orders modifying the Pure Premium Rate shall specify the actuarial basis for computation of the rate (42CFR434.14(a)(8)) in accordance with the contract.

i) Approval

Any annual Pure Premium Rate Change Order or Mid-Year Pure Premium Rate Change Order that authorizes the expenditure of more than fifty - thousand dollars (\$50,000) annually shall be subject to the approval of the California Department of Finance and California Department of General Services. These changes may also require a thirty (30) calendar-day notice to the Legislature, which is required prior to Department of Finance approval.

j) Payment for Underwriting

i. Billing – Advance Pure Premium

No later than thirty (30) calendar days prior to the first (1<sup>st</sup>) day of any month of insured benefits coverage, the Contractor shall submit a billing statement to the Department for the advance Pure Premium Payment of each grouping (refugees and all other Medi-Cal beneficiaries eligible for service under this contract) for that insuring month. The billed amount shall be equal to the estimate of the monthly number of eligible beneficiaries entered in the contract or letter as specified in this Section for the underwriting year commencing or in progress multiplied by the Pure Premium Rate for the grouping in effect during that year.

The Department intends to pay the Contractor within the first two (2) State workdays provided that the Department has budgetary authority and funds.

ii. Billing – Monthly Pure Premium Adjustments

Upon receipt of a Department report of a six- (6) or twelve-month (12) reconciled eligible beneficiary count for a month of coverage (see Subsection 2.b above, Pure Premium Payment Adjustments - Each Month of Coverage), the Department will calculate the difference between the actual and the interim or interim and final beneficiary count as described in Subsections 2.b. and 2.c. above. The Department will complete the calculation and the Contractor will be notified by letter. The Contractor shall have five (5) days to dispute the calculation:

Where a supplemental Pure Premium Payment is due to the Contractor, the payment will be the amount of the supplemental payment due from the Department calculated in accordance with the preceding instructions in these payment provisions; and

Where a credit is due to the Department, reduce the next subsequent advance Pure Premium Billing Statement by an amount equal to the credit due the Department. The amount of such a credit shall be calculated in accordance with the preceding instructions in these payment provisions.

iii. Billing - Cost Reimbursement

No later than thirty (30) calendar days after the last day of the month of payment to the provider for the insured dental benefits coverage, the Contractor shall submit a monthly billing statement to the Department in an amount equal to all payments made to providers for dental services rendered under the applicable cost reimbursement provision of the contract. The Contractor may pay the providers for cost reimbursement provisions of the insured dental benefits out of the PPF. The Department reimbursements shall then be deposited into the PPF. Additionally, pursuant to Exhibit A, Attachment II, Takeover, the Contractor shall provide the Department, by noon of the first (1<sup>st</sup>) State workday following each weekend, the report required in Exhibit A, Attachment II listing the amounts and claim lines of Prior Contractor claims paid by the Contractor.

- A. Where more than one (1) cost reimbursement arrangement exists between the Department and the Contractor, the Contractor shall separately identify on the billing statement the billed amounts for incurred dental services costs. The Contractor shall separately identify CMSP, CTP, CCS/GHPP, Healthy Families, services not in scope of benefits, prior contract claims, and any other cost reimbursement categories.
  - B. Where payment to the Contractor under a cost reimbursement arrangement is conditional upon the submission by the Contractor of specified documentation or data, payment by the Department to the Contractor under such an arrangement shall be made only after receipt and acceptance by the Department of all of the required documentation or data. Acceptance of the required documentation or data shall be based upon the Department's determination that the information is sufficient for the purposes for which it was intended.
- k) Determination of Annual Underwriting Loss or Gain-Guaranteed Per Capita Pure Premium

Determination of underwriting loss or gain for guaranteed Per Capita Pure Premium Rates shall be made following the completion of each underwriting year. The determination shall not be made until the audit of each underwriting year and shall include all claims with dates of service that are paid within the underwriting year through the thirteenth (13<sup>th</sup>) month following the underwriting year and all final Pure Premium determinations. Determinations may be delayed if, due to unforeseen circumstances, through a change order, later adjustments to the Contractor payment are needed.

- i. Underwriting loss or gain shall be determined as follows:
  - A. On the basis of a final income/cost-experience accounting for the underwriting year.
  - B. A written statement of the final income/cost-experience accounting with supporting documentation shall be submitted to the Department by the Contractor no later than fifteen (15) calendar days following the last report submitted by the Contractor of the required components used to determine the underwriting gain or loss as described in this Exhibit below.
  - C. The above-referenced statement and the PPF shall be independently audited pursuant to Exhibit E. The audit report shall be timely delivered to the Department no later than fourteen (14) months after the underwriting year.
  - D. Underwriting loss or gain shall be determined irrespective of the Contractor's administrative cost experience and cost reimbursement for insured dental benefits coverage, and shall be the amount by which total Pure Premium income to the Contractor under the contract exceeds or is less than the incurred Medi-Cal dental claim cost experience guaranteed by the Contractor (Total Incurred Claims), and for which the Contractor has assumed liability under this contract. The following methodology shall be used:

$$\text{Total Pure Premium Payments} + \text{Interest Income} + \text{Recoveries} - \text{Total Incurred Claims} = \text{Gain or (Loss)}$$

- ii. The components for each underwriting year shall be determined as follows:
  - A. Pure Premium Payments shall include all advance Pure Premium Payments, six (6) and 12-month (12) reconciliation adjustments, and retroactive rate adjustments for the underwriting year;
  - B. Interest income shall include interest and investment income (net of interest expense) earned during the underwriting year; any interest expense incurred as a result of a State budget crisis is not included in this line item. Rather, there is an additional calculation performed after the determination of the underwriting gain/loss, whereby the interest expense attributed to a State budget crisis is deducted from the State's gain/loss amount;
  - C. Recoveries shall include recoveries made during the underwriting year;
  - D. Total incurred claims shall include incurred and paid claims, excluding cost reimbursement claims, for the underwriting year through the thirteenth (13<sup>th</sup>) month following the end of the underwriting year; and after the first year, any prior years' claims not reported in the prior years' determinations of underwriting gain or loss;

E. Any other adjustments as defined by change orders.

- l) The final income/cost-experience accounting shall be subject to the provisions of the Audit and Accounting Requirements sections of the contract.
- m) The gain or loss shall be allocated using a tiered approach as described below and shall be completed subsequent to the Pure Premium Audit of each underwriting year.
- n) Any loss that requires the Contractor to pay into the PPF must be paid into the PPF within ten (10) State workdays of the date of the Department's notification to the Contractor of its obligation to pay. Any gain that allows the Contractor to withdraw funds from the PPF shall be withdrawn only with prior written notice to and written approval from the Contracting Officer. Generally, Contracting Officer's approval will be given within ten (10) State workdays after verification of the gain and the right to withdraw through an independent audit.
- o) Description of Allocation of Underwriting

The Contractor and the Department, using a tiered approach, will share pure premium gain or loss.

Any gains or losses for any underwriting year shall be settled upon completion of the PPF audit. At that time, the Contractor and the Department will pay into the PPF their respective share of any losses, or withdraw their respective share of any gain. Gains and losses shall not be carried forward from one year to the subsequent year.

If the beneficiary population deviates for any reason by five percent (5%) or more from the fiscal year 2003-04 baseline estimate, as presented in the May revision to the Governor's Budget, the determination of the actual gain or loss set forth in this Exhibit below, shall be modified accordingly. The actual gain and loss corridors will be increased or decreased by the actual percentage increase or decrease in the number of eligible beneficiaries.

- p) Determination of Gain Distribution

Gain for each contract year shall be distributed in the following manner and order until exhausted:

	<u>Contractor</u>	<u>State</u>
First \$6 million	50%	50%
Next \$5 million	25%	75%
Next \$4 million	10%	90%

Remainder	0%	100%
Interest Expense resulting from a State budget crisis	0%	100%

q) Determination of Loss Distribution

Loss for each year of the contract will be distributed in the following manner and order until exhausted:

	<u>Contractor</u>	<u>State</u>
First \$6 million	50%	50%
Next \$5 million	25%	75%
Next \$4 million	10%	90%
Remainder	0%	100%
Interest Expense resulting from a State Budget crisis	0%	100%

r) Extended Operations Settlement

If the Department exercises its option for Extended Operations, the final contract settlement shall include the final full year of underwriting and shall be distributed according to the adjusted gain or loss-sharing ratios.

s) Interest Credits

Interest or investment income earned by the Contractor on unused Medi-Cal Pure Premium Payments (cash flow) shall be accounted for in a manner that makes such amounts readily ascertainable and identifiable (see Exhibit E, Audit of Pure Premium Fund and Financial Viability).

The interest and investment income that is deposited in the PPF during each underwriting year of insured dental benefits shall be included in the total Pure Premium Income for determination of the allocation of the annual underwriting gain or loss for that underwriting year as described in u) Underwriting Rate Support Documentation. The interest and investment income amounts shall be identified at the time the underwriting gain or loss is determined and shall not be separately paid to the Contractor.

Interest expense resulting from the Contractor's need to borrow funds due to the absence of a State budget shall be accrued one-hundred percent (100%)

by the Department and offset against interest income for purposes of underwriting gain or loss computation.

The Department shall not participate in any losses, commissions, other investment expenses, or charges incurred in the investment of unused PPF. All commissions, investment expenses, and other charges shall be included in the bid rate for administration. Any losses of the PPF shall be paid by the Contractor from funds other than PPF prior to the calculation of gain/loss determination.

t) Extended Operation – Insured Dental Benefits Coverage

Payment to the Contractor for insured dental benefits coverage (guaranteed Per Capita Pure Premium Rates) during Extended Operations shall be made at an adjusted Pure Premium Rates as described in this section. To develop the adjusted Pure Premium Rate, the Pure Premium Rates for the last benefits coverage year under this contract shall be adjusted by changes in the trend factor as defined in Appendix #\_3\_\_ and seasonal factors negotiated between the Department and the Contractor. This shall be accomplished by a Mid-Year Premium Rate Change Order. The Department shall make advance monthly Pure Premium Payments to the Contractor at the beginning of each month of extended operations. The amount of payment shall be computed in accordance with this Exhibit.

Cost reimbursement for excluded groups in effect during the Extended Operations shall continue as provided in this Exhibit.

u) Underwriting Rate Support Documentation

The Department will require specific information from the Contractor when setting the Pure Premium Rate for each underwriting year when Contractor disagrees with the Department's proposed rate. Specifically, the Contractor shall:

- i. Specify the actuarial basis for the Contractor's rate proposal. Reasonable credibility must be given to emerging experience in developing this actuarial base (42CFR431.512(a)(8)). The documentation required to support the rate proposal shall include, but is not limited to, the following:
  - A. Actuarial basis upon which the Contractor's rate proposal is based
  - B. The base period upon which the rate proposal is based;
  - C. The source of the experience data that is used by the Contractor, including the specific months of paid claims data; and
  - D. Count of beneficiaries upon which the rate proposal is based.
- ii. Document the primary assumptions for inflation, expected interest and investment income, related economic factors, utilization changes, and

program experience which have been applied in determining the rate proposal. (The actuarial basis that will be applied by the Department is described in **Appendix #\_3\_**).

- iii. Under no circumstances include any amounts for recoupment of any losses suffered by the Contractor for risks assumed under the same contract or a prior contract between the Contractor and the Department (42CFR434.14(a)(4)).